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TAX POLICY REFORM COMMISSION  
October 12, 2007

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The Tax Policy Reform Commission met at 9:00 a.m. on Friday, October 12, 2007, in Room 2102 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing. Members present: Senator Carroll Burling, Chairperson; John Anderson; Richard Baier; Doug Ewald; Don Freeman, Mike Hybl, Matt Jedlicka, Senator Gail Kopplin; Senator Vickie McDonald; Senator Rich Pahls; Senator Ron Raikes. Members absent: Senator Deb Fischer, Senator LeRoy Loudon, Milo Mumgaard, Mark Munger, and Senator Arnie Stuthman. Also present: Robert McManus, George Kilpatrick, Sarah Skinner, and Kurt Bulgrin. []

SENATOR BURLING: (Recorder malfunction)...may be others join us after we begin. Appreciate your coming on a beautiful day like this and...as we wind down our deliberations on this commission. The first thing I'll do is ask Amanda to call the roll. []

AMANDA JOHNSON: (Roll call taken.) []

SENATOR BURLING: Okay. Thank you. We have complied with the Open Meetings Act and there's a notice on the...by the door over there of the Open Meetings Act, and this meeting was advertised on the public meetings calendar. As the last couple meetings, they've been transcribed and so, therefore, there are no minutes prepared for consideration. Transcripts can be acquired for anyone that wants them. I'll remind us at this point that November 8 is our last meeting, because the final report is due November 15. So under the leadership of Mr. McManus, we'll do some more discussion this morning. And if we are comfortable with consensus, November 8 will be our next meeting. If we're not comfortable yet, we may choose to stick another meeting in between now and November 8. So we can be thinking about that. Before we leave today, we'll have to make that decision. So that...we'll do that later. So I think you've all had copies of some of this material for a week or so. Hopefully, you've had time to go over it and have marked areas where you want to raise questions. And Mr. McManus

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has done a good job of giving us our information and leading us through this, and today we're going to revisit several tax areas, and I, at this point, I'll ask Richard if he has anything he wants to say to the group. []

RICHARD BAIER: I don't have anything, Senator. []

SENATOR BURLING: Okay. Then I'll turn it over to Bob at this time to continue our discussion. []

ROBERT McMANUS: Thank you, Senator. For the first time, we have a hard copy for everyone of everything that we've done so far, with all the attachments, which will be, I think, useful for us today in going through it. We've put spacers in between various sections so that we'll be able to find things. The main focus this morning is going to be on the major decision that still we haven't come down on between sales tax and property tax. Just to (inaudible), the Nebraska tax system has three has three major sources of revenue: the sales tax, property tax, and personal income tax. And I think the decision, the conclusion, has generally been reached that the...and this was also true in the Syracuse Study back in 1988, they concluded the personal income tax is generally good and they made no recommended changes. Since '88, there have been changes in rates and brackets and things, but fundamentally the personal income tax is the same tax and the...and we'll get to the conclusions we reached last time on personal income tax. But basically, I think the sense was that we...that we would not make recommended significant changes other than looking at the area of brackets and looking again at progressivity. And so where that leaves us and what I want to focus the discussion on today is the trade-offs that would exist between property tax and sales tax; that what the study has shown so far is that, by any measure, property taxes are high, sales taxes are also high but in...within relation to other states, Nebraska is higher in property tax than they are in sales tax, compared to other states. And state aid to local government in Nebraska is very low, one of the very lowest. So I've put together...and we had a subcommittee meeting a few weeks ago in the sales tax group to talk about what

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changes we could make, and what it really boiled down to is there's a whole range of things you could do, from very significant to very minor. And so what I've done is listed some of the things we've talked about and they're in this handout in your envelope, entitled "Sales Tax/Property Tax Options." And I'm going to walk through the range of things that we talked about and go through the pluses and minuses of them so that we can have a debate about where we want to come down on this. The first thing that we could do would be a major shift in tax structure. The data shows that if Nebraska wanted to tax most services and remove a lot of exemptions, that you could raise \$600 million to \$750 million in additional sales tax revenue without changing the rate, keeping the 7 percent rate, but it would be a major change in the breadth of the tax. So you could do that. You could raise...increase sales tax by \$600 million to \$750 million, and you could take that \$600 to \$750 and reduce property taxes. And one way you could do that which would spread the relief out to everyone would be to provide a homestead exemption to all homeowners and couple that with a circuit breaker relief, which we studied several months ago, to renters so that every homeowner and renter would get property tax relief. And what I list as the advantages to doing something like that would be that it immediately moves Nebraska into the mainstream of states in terms of property tax burden and state aid to local government, because right now state aid to local government is about \$1.2 billion, and this would add another 50 percent to that, another \$600 mill. So it would be a significant change and shift in structure that would immediately move you from being high property tax to being more in line with other states. It also provides property tax relief to all income levels because you do provide it to renters, and it broadens the sales tax base without raising the tax rate of the sales tax. But there are also disadvantages to doing that; that, first of all, it raises the overall sales tax level to one of the highest in the country. We would be very much like South Dakota in terms of the breadth of the tax. The sales tax is a regressive tax and so, although some of the commentators say that the broader the base the less regressive it becomes, it's still a regressive tax. A second consideration: income tax itemizers would lose federal tax deductions, and this is of importance to a segment of Nebraska taxpayers. And what I mean by that is, for federal income tax purposes, you're allowed

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to deduct property taxes on your federal return. You're also allowed to deduct the higher of state income tax or state sales tax, but not both. And what we've heard from the Department of Revenue is that about 27-28 percent of Nebraskans itemize deductions and, of that, all but about 3 or 4 percent... []

DOUG EWALD: Ninety-eight percent, isn't it? []

ROBERT McMANUS: Yeah, 98 percent deduct the state income tax and not the state sales tax. And so by shifting to increasing state sales tax, you're going to be taking away a deductible deduction of property tax from some taxpayers and shifting to a nondeductible sales tax payment, which means that, particularly for high income tax payers, even though they're paying the same, they may be paying the same state tax, they're losing federal deductions. []

JOHN ANDERSON: It's a windfall revenue for Washington. []

ROBERT McMANUS: It's a windfall to Washington. And then finally, one of the things that we saw when we looked at state...local governments in Nebraska compared to other states is that the local government structure is much bigger in Nebraska than almost every other state, and this type of proposal would do nothing towards...encourage local government to restructure and reduce spending, and in fact could encourage more local spending. So that would be the bold stroke to making an immediate shift. We also looked...and this second one is just an example of that there's any number of interim steps you can take, and one of them that we discussed was to raise the state sales tax rate and eliminate the local sales tax option, with some adjustments. And what you would do there is, as you know, right now the state rate is 5.5 percent and the local option is 1.5 percent. You could simply raise the state rate to that 7.0 percent and eliminate the 1.5 percent. Not all jurisdictions have enacted the 1.5 percent and so what you could also do is provide a state payment to those local jurisdictions who had enacted a 1.5 percent of some compensatory amount to cover, so

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perhaps half a percent. But then what you would do is take all of the additional incremental state revenue between the difference between the 7 percent and the 5.5 percent and distribute it to local government to reduce property tax burden. The advantages is that it increases the state aid to local government. It collects a 7 percent sales tax uniformly across the state, which is probably good public policy, and it brings property tax burdens more in line with other states. The disadvantages is that, generally, high-population areas right now impose the local tax and use it in their own locations, and what this would be doing would be moving, shifting, tax from high-population areas to low-population areas, because you'd be taking that other 1.5 percent and distributing it more broadly. Secondly, some local governments have...may have long-term obligations in terms of indebtedness that counts on receiving that 1.5 percent. And so it may be very difficult and may be politically very difficult to go down this road. Then a final way that the commission could go would be to recognize the incremental changes that have occurred over the last 20 years since the Syracuse Study that overall tax burdens are more in line with other states, and to recommend no major changes, but instead to recommend the incremental changes that have been occurring continue, and that whenever there is a surplus that it be directed towards property tax relief. And if you look, one of the new sections I had in the black folder is Section 2, is the "Overall Nebraska Tax System." And if you go to that section and find Exhibit 2, which would kind of be in the middle of that section, and it's a pie chart, and the exhibit is right after the (inaudible) part. This exhibit really supports the statements that I just made that what's happened since the 1980s is that there have been significant shifts in the way that Nebraskans are taxed, and the property taxes back in the eighties were at 45.7 percent, and today they're at 33.7 percent. Sales tax has broadened, personal income tax has broadened. There's been gradual, incremental change that's occurred. And it isn't...there's no question that property taxes have not gone down, but there's, as the state has grown, the increased revenues are coming less and less from property tax, and so that today property tax is still high but is much closer to the national norm than it was in the 1980s. And so...and coupled with that, the analysis that we've done on the size of local government that there's no question that

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local government is large in Nebraska, but it is much, much smaller than it was even 20 years ago, and especially 40 years ago. You know, we saw that Nebraska, in 1940, had 7,000 school districts. In the data that I showed last time, that by 2005, it was at about 350, which was still high...no, it was a little over 400, which was still high. And then...but...and that's the data we used because that's the data we had for all states, but in the ensuing years, today, it's, what, about 250, George? []

GEORGE KILPATRICK: Two fifty, three. []

ROBERT McMANUS: Two fifty, which is getting at much more...continues to get much more in line with what we see from other states of our population. So a credible argument could be made that what the Legislature, in its wisdom, has done over the last 20 years has incrementally been shifting Nebraska's tax system much closer to the norm. So I say that's what I see, is there's a wide range of options that the commission could look at. I'm going to turn this over for debate. Don, you might want to start, because we were... []

DON FREEMAN: Well, I, you know, we talked last time about the tax implication of by having more property tax relief locally it's going to increase the income tax for payment to the state, which is one of the complaints that we hear all the time, is our income tax rates are too high and property tax rates are too high. So I feel that an option would be to broaden the tax bases; probably the most...is the best way to do it. And that's going to raise our sales tax, but if we can get that relief back to the citizens, to me, that would be the logical way to approach a sales tax. And hopefully that there could be some maybe gradual changes of the tax base, shifting it over a period of time and to making it more broad to raise that income to \$600 to \$800 million for property tax relief. I still that's the way we've got to go to do that. []

RICHARD BAIER: Does that mean you're recommending one over the other, number two and three? []

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DON FREEMAN: I think so. I think number two, as Bob pointed out, the raising the sales tax percentage is going to put a additional burden on the local economies, which may entail raising property taxes in those economies to pay for that base. That would be...that would be my recommendation, is that number one. Yes, it does have disadvantages, more local spending probably, but I think that can be controlled properly. []

JOHN ANDERSON: Could I ask a point of clarification about number one? The way Bob described it, the broadened sales tax base generates \$600 million to \$750 million in revenue. Are you going to use that all for property tax reductions or state aid, putting some of it in the state aid formula? []

ROBERT McMANUS: Well, it could go either way. I mean it (inaudible). []

JOHN ANDERSON: Yeah, I know, but the statement that it immediately moves us into the mainstream... []

ROBERT McMANUS: Yeah, I assume, I assume that you're going to have reduced property taxes, but then it depends... []

JOHN ANDERSON: So if you use it all for property tax relief then there's no component through the state aid formula, right? []

GEORGE KILPATRICK: Right. []

JOHN ANDERSON: And you could use it for either or both, half and half. Okay, I just wanted to be clear on what you're suggesting. []

ROBERT McMANUS: Although, if...I mean, arguably, if you used it for state aid to local

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government then they should be reducing the property taxes. []

JOHN ANDERSON: That could, yeah, yeah, not necessarily by itself, but through some limitations in spending or some other mechanism you could force property tax rate reductions. Okay. []

SENATOR PAHLS: What are some of the examples of increasing the base? What exemptions would you take away? I'm just curious. []

DON FREEMAN: There's a whole list of them. []

SENATOR PAHLS: I know there's a list, but I mean... []

DON FREEMAN: You can go through and I guess you'd want to probably look at a number that you want to raise in sales tax income. []

ROBERT McMANUS: It could be Draconian. It would mean probably...you'd probably do food with a...some...you'd probably do food and go back to the method that Nebraska originally used to where that a credit would be given to low-income families for food. But you'd do cattle and feedstock, that was a large number. What you wouldn't do, you wouldn't do sales for resale and you wouldn't...you'd try to avoid inputs to manufacturing, but basically everything else to (inaudible) that kind of money would be taxable; all services. And you don't necessarily need to do...you know, \$650 is...\$600 to \$750 is the max you could do. You could do something less. But it seemed to me, when we looked at how, when you had a \$100 million surplus and trying to find a way to give that back, that \$100 million doesn't get you much of a reduction on any tax (inaudible) of significance. You really need to get into the \$300 million range before you're giving people significant relief. []

DON FREEMAN: I think one of the concerns about this also is the tax on ag input



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product, which I would not be for. We'd have to find out some way to get around that, because tax on ag inputs is the same as taxing when I'm purchasing from a steel mill, and to me that's not right. So we'd have to really sit down and see what's the actual benefit going to be to the landowner, to the homeowner, and so on. It's very complex, I think. []

SENATOR PAHLS: Right. Because I...and I understand, because if you take too much away from something, you know, when you think back, it's...that is unfair. But if we start playing around with food and let's say that the person is out there and they...we're going to play around the food part of it, but then they see these large amounts in other areas not being taxed, I mean, that would be pretty hard to defend, I would think. []

DON FREEMAN: Uh-huh. Yeah. []

SENATOR PAHLS: I mean if I'm going to say, oh, gee, this big exemption over here, but we're going to hit everybody on food, and that's hitting everybody, but I see some people over here who are getting pretty nice...you know, it seems that we're going to have to really know what we're doing if we go that route. []

SENATOR BURLING: Mike. []

MIKE HYBL: I think the concern I have with proposal one is...and, you know, I think we were detailed to look at tax structure and not look at the spending side, but, you know, \$600 million to \$750 million tax increase on the state side without any real guarantee or proposal to folks, what's going to happen on the local spending side, I mean, causes me a lot of concern, a lot of heartburn I think. []

SENATOR BURLING: Well, also, you talk about property tax relief, broadening the sales tax base that much would be a windfall for the cities that have the 1.5 percent option. That would be property tax relief alone right there, without any help from us. Just

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broadening the base would be a windfall for the cities. So, yeah, okay. Other comments? []

RICHARD BAIER: I have a question (inaudible). []

DON FREEMAN: No, go ahead. []

RICHARD BAIER: I've got a question for Doug, and he probably may not be able to come up with it. Do we know who the largest property taxpayers are in the state? Because we keep talking about exporting our tax base and, if I remember right, the two largest right now are Ted Turner and the Mormon Church. Is that still pretty accurate? So if we come in with a property tax component like this... []

GEORGE KILPATRICK: The largest is U.P., I believe. []

DOUG EWALD: Yeah. []

RICHARD BAIER: Okay. So I think... []

GEORGE KILPATRICK: And Telecommuni...it used to be US West, but then things got so messed up I'm not sure about that anymore. []

RICHARD BAIER: But my question is, if we come out with a major component to free up the property tax (inaudible), do we really export our problem by benefitting folks who don't really live here? It's just a question I was thinking about, because if we look at who the largest landowners are, not that I don't want to help Matt's ag friends. I understand that component, but they're owning less and less of it, and I'm looking at a lot of out-of-state owners coming in and buying hunting ground. I was just out west two weeks ago and they're buying it up at triple the going rate. So now we've got a bunch of guys out of Colorado, want to give them a property tax discount for coming in and buying up

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hunting property, taking it out of farm production. It's food for thought. []

JOHN ANDERSON: That why a circuit breaker would allow you to target it more narrowly, that you've got to file a Nebraska income tax to get... []

RICHARD BAIER: Right. []

JOHN ANDERSON: ...tax relief. And you have to have high property taxes relative to your income. So you can really...you can target the relief more narrowly if you choose to do it through a circuit breaker than an exemption or even lower rates. []

DOUG EWALD: They're going to turn that land from ag into commercial though? []

RICHARD BAIER: Yeah. Well, it's the reason, for hunting. Well, Ted Turner and the Mormon Church, they're raising cattle or buffalo, depending on their preferred choice, but most of them are using it for hunting property and that's why they're willing to pay three times the going rate. []

DOUG EWALD: There are risks there that the county assessor will come in and say it's not...it's no longer ag, it's commercial if that's what you're using it for. []

RICHARD BAIER: Right. []

DOUG EWALD: There's a risk to it. []

RICHARD BAIER: Sure. []

GEORGE KILPATRICK: If you lower rates, it lowers the (inaudible) the other aspect just as much. []

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DOUG EWALD: Right. []

MATT JEDLICKA: Richard, that's a very good point. My whole point, though, is that ag land is not, one, representative of ability to pay, and benefits received when it comes to school funding. []

RICHARD BAIER: Sure. []

MATT JEDLICKA: So, yeah, should we take all the money we can from Ted Turner? But, you know, what's he getting out of his taxes when it comes to school funding? I guess that's my whole basis. And I'll maybe ask that. When you guys talk about state aid to local governments, was there a discussion of just putting it towards state aid to schools as opposed to local governments? []

DON FREEMAN: I would think it should be school... []

MATT JEDLICKA: Or is that for a decision down the road? []

DON FREEMAN: I think it should be schools. []

MATT JEDLICKA: Schools. []

DON FREEMAN: To me, that's the biggest taxpayer, at least in my area it is, it seems to be around the states that school districts are the ones that raise the most money through property taxes. So to me, that's where it should go. []

MATT JEDLICKA: Uh-huh. Yeah, I guess I agree with that. I look...I've been looking back on that Syracuse Study a little bit and, of course, that was one of their strong recommendations, that in there, in the synopsis, said that that's one thing that the state has changed over time is they've fivefold increased state aid to schools, which we're still

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last or near last in the country, so that's a little hard to believe. But I guess I agree with Mike, too, that local governments are their own creature but...and they get carried away with the money. If we go to schools, we can immediately drop the property aid, like the Syracuse Study...or property tax equation or funding from local sources, that the Syracuse Study recommended, even further. And you do them at the same time. I don't know if there's a strong way to avoid overspending or not. You hope...I guess you hope you could do it the right way. []

SENATOR BURLING: Is there a dollar estimate on what the feds would increase? []

ROBERT McMANUS: I don't know that... []

SENATOR BURLING: We don't have...you got... []

GEORGE KILPATRICK: Itemized, they're going to be around 31 percent. []

SENATOR BURLING: Yeah, but we don't have any idea of what we're talking about for dollars that Nebraska residents would increase their federal obligation. []

GEORGE KILPATRICK: I'm just saying that the marginal tax rate of folks who are itemizing is going to be toward the high end. It's probably going to be 31, 28, 31, 36. What's the top (inaudible)? So the average is probably going to be around...just say 30 percent. If you've got \$200 million, then the fed increase would be \$69. []

DON FREEMAN: Sixty-nine bucks. []

SENATOR RAIKES: I guess the other thing about Matt's point on the schools, you know, if I buy ag land and I don't bother to go to the trouble of seeing how much the property tax obligation was, you know, I deserve what I get. []

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JOHN ANDERSON: Caveat Emptor. []

SENATOR RAIKES: Well, you know, and whatever it is. I mean, it's, you know, you buy a bond and, you know, you figure a capitalization rate and that determines how much you're going to pay. It's a lot the same on ag land. And if, you know, if I buy an ag...if I want to buy some ag land and I think, well, gosh, I'm going to pay way more than anybody else will pay, because I think property tax on ag land is going to be reduced to zero, and that doesn't happen, well, then who's fault is that? It's probably mine. The one place where, you know, you get some surprises is school buildings, bond issues. You know, all of a sudden, you know, and it's typically not all of a sudden. We're out here. We know we need...building is starting to fall down, we need to put up a new building and, you know. So...but that can be a shock. So, in a sense, you could argue that in terms of ag land, where you need the most help from the state is on school building construction, and that's an uneven thing across the state. I mean there's a lot of...more than half the school districts in the state have zero school bond issues. Then there's some others, when you get in the eastern end, that have, you know, very significant school bond issues. But, you know, in a sense, if you dealt with that, you would take some of the bumps out of the road in terms of that property tax obligation. The other thing you need to keep in mind is where the Legislature apparently is right now on this issue. We had a clear choice last session as to whether or not we wanted to drop the levy lid for schools or do a nonequalized property tax reduction, and the latter is what we did. []

SENATOR BURLING: Mike. []

MIKE HYBL: The only other observation I think I'd make that I think concerns me on the first proposal is that, you know, absent a constitutional amendment, there's no long-term guarantee that additional state revenues would continue to flow in property tax relief; that one Legislature can't bind another and there will always be that inherent risk the focus and priorities would change with time, and I've got some concern with that too. []

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MATT JEDLICKA: And if I could add to what Senator Raikes said, that's a great point and I'm glad he brought that up again, because I just feel...I've said this before in this commission, you know, overnight our property taxes in Schuyler changed dramatically. We passed a bond issue Tuesday. And like I said, I...trying to explain to my friends in town how their \$200,000 home is going to be taxed \$120 a year additional. And that 1,000-acre farmer, which is a one family, modest size--1,000 acres is what you need to probably make a living in Nebraska, in our area of the state--they're going to pay \$1,125 a year towards that school. That's not including their home, their buildings, anything on their farmstead. So I agree with Senator Raikes. I think that is the...it's practically taxation without representation, and it is the one...well, you just look at the percentages on it. That's our one biggest shocker, I think, in our whole tax system. And, Senator Raikes, you've said that there's only 12 states like us that build schools that way, with total local funding, correct? As we move on in this, and it probably won't be today, maybe next meeting, I guess that's one of the recommendations I look to make, is for our state to explore...you know, and I don't know the right way to word these, how they're going to be in the final report, but to explore that option of funding school buildings with state funds to avoid the shock that passing a bond issue has on agriculture primarily. []

SENATOR PAHLS: With this, the curious thing, because I happen to be from the area where the bond indebtedness is unbelievable, I mean, you know, so the eastern part of the state would probably benefit from this, would they not, the metropolitan areas? Now here's another thing. Would this encourage...because we do eventually need probably more consolidation, we know that. Will this help or hinder that? Because for education costs to go down, some of these...we do need to, whether we like it or not, we need to do more consolidation. Will this encourage this small town? Because I know and I'll just...because when I grew up in Kansas, all these little towns, because they knew consolidation was happening, this is in '68 when it finally happened, they built all these buildings in a few years, trying to think this would keep their little town, so if you go to

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some parts of Kansas, you'll see basically some now old buildings but they were pretty nice buildings because everybody got that competitive edge that I'm going to save my village or something because of the school. Will that happen? []

SENATOR RAIKES: Well, you go to Loomis and Bertrand right now, little towns maybe 5 or 10 miles apart on a paved road, and they're both building new school buildings. I think that's exactly...well, I don't know, but I suspect that's what's going on. But, you know, in answer to your question, and Gail probably knows a lot more about this than I, there are a number of ways you can go about such a proposal. And if you're going to provide state funding for school buildings, there's got to be--and I know it's a dirty phrase--there's got to be some kind of certificate of need. You can't just say, well, you know, I want to build a new school building so that when the inevitable consolidation occurs it will be us instead of the town five miles down the road. I mean there's got to be some sort of a...well, a need demonstrated in order for that to happen. Well, that gives you all kinds of options. You know, you can have the certificate of need dependent upon valuation per student so that you can bring an equalization aspect in. You can have it depend upon efficient-sized schools, a school big enough to, you know,...or the need to merge, as you say, or any of those kinds of things. So there's a lot of discussion that can occur around that, you know, exactly, but it does open up, I think in answer to your question, it opens up some opportunities for the state to have influence on what's going on in the way of the size of school districts and the buildings that are building built. Now in the minds of some that's a good thing; in the minds of some others that's a really bad thing, but... []

DON FREEMAN: How many states have that option now? You said there were... []

SENATOR RAIKES: As Matt says, I think Nebraska is 1 of only 12 that leaves it entirely up to the locals to fund school facility. And as Rich says and Gail, I mean Gail, in their area, they're having to pass a bond issue about every other year in order to keep up with the building needs of the school district, and Millard is, you know, they're still



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(inaudible). []

SENATOR PAHLS: Well, granted, some of those schools, they're just going to be (inaudible). They're going to be in a world of hurt. []

SENATOR RAIKES: They, you know, they have the advantage that the new valuation that comes in along with the need for buildings tends to support, you know, it's sort of an imprecise equation there, but it tends to support so that you don't have to...I mean most of those school districts have bond issues, what, in the 25- to 30-cent range? []

SENATOR KOPPLIN: Yeah, but there's one thing to keep in mind on valuation, when you talk about that. Homes do not pay for the number of kids that come out of them. You follow me? (Laugh) You get new valuation, but you also get kids in those homes and the valuation on those homes do not support (inaudible) kids coming (inaudible). []

SENATOR RAIKES: What you need is shopping centers then. []

SENATOR KOPPLIN: Yeah. []

SENATOR RAIKES: Yeah. []

SENATOR KOPPLIN: Right, or farmland (laughter), which we can't...which we can't get anymore. []

MATT JEDLICKA: And I'm sure the ones that have it probably a \$4,000-\$6,000 valuation around there enjoy a bond issue too. []

SENATOR KOPPLIN: Yeah. []

GEORGE KILPATRICK: I had Brittany, in our office, bring some coffee, if anybody

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needs any, so... []

SENATOR BURLING: Thank you, George. Who else wants to...? This is excellent discussion. Mr. Freeman kind of said, well, we...our subcommittee kind of supports number one, the major shift, and I hear some questions about that. Are there...kind of what Mike was talking about, so on and so forth. Do you want to tweak that? []

SENATOR PAHLS: Like a lid? Is that what you're saying. []

SENATOR BURLING: Do you want to tweak that a little bit and put some considerations in that, or do you want to not go...? Maybe you want two or three. We haven't discussed two or three. []

SENATOR PAHLS: What still surprises me, and we're talking about local government spending a lot of money, those people are your neighbors and do you see them as just going out and just wanting to create their own little fiefdom? I don't see that. I mean I look at some of the school board members in Millard. I mean we have bankers on, we have...I mean, we have business people on and I don't...that's...but there is a lid. I understand that. And the number of...I thought we, last time, had decided that Nebraska does not have that many parts of government that have the ability to tax a lot, because of all the little townships and things like that. They don't do that much, do they? I mean it sounds like we have all these pieces of government out there, but we really...they really don't cost us much, do they? []

GEORGE KILPATRICK: Well, they add up to something, but small governments, like you say, are small governments. []

SENATOR PAHLS: Yeah. []

GEORGE KILPATRICK: Townships likely total about \$20 million I think statewide. []

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SENATOR PAHLS: In the state? []

GEORGE KILPATRICK: Yeah. But there's only 23 counties that even have them. []

SENATOR PAHLS: Right. But if you add all that...when you start adding up all those things, it sounds like we have a lot, and maybe we don't have as many that are hitting us in the pocket. And I could be wrong. I don't have that background (inaudible). []

GEORGE KILPATRICK: And each one is different and fills a different role, and to you it might be significant; to somebody else it isn't. []

SENATOR PAHLS: No, I'm talking about their taxing, how much they cost us. I mean let's say we have an SID. []

GEORGE KILPATRICK: Well, an SID can have very high rates and... []

SENATOR PAHLS: I know. I... []

GEORGE KILPATRICK: ...it affects a smaller number of folks, but they can be very high. []

SENATOR PAHLS: But...and I've sat on an SID board and I can assure you, we just didn't go there, it was the developer who got us in trouble, not the SID, the board, and then if you're the developer you have all the votes on it anyway. []

GEORGE KILPATRICK: That's exactly right. []

SENATOR PAHLS: You know? I mean... []

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GEORGE KILPATRICK: It's a different way of organizing (inaudible). []

SENATOR PAHLS: I mean, I tell you, you sit there, like here, and you're the developer and you have two-thirds, okay, I got two-thirds of the votes, you know? []

GEORGE KILPATRICK: I mean all I'm saying is that stuff shows up as property taxes levied and makes...is one of the factors that makes Nebraska high in property tax, is the fact that we finance development in a significant portion of the state with SIDs, developers levying property taxes on themselves to build streets at what can be very high rates, especially early on, in the hopes that it will be successful enough that the rates will drop to kind of like the surrounding area. []

SENATOR PAHLS: Okay. So you're saying, like in Douglas County, in that area where we have a lot of SIDs, as compared to Lancaster. They do not. So maybe...and I'm not against developers, guys, but maybe (laughter)...I just, you know, I just...more than one way to skin a cat. []

DON FREEMAN: Bob, how much money is raised through property taxes? []

GEORGE KILPATRICK: Two billion. []

DON FREEMAN: Two billion? []

GEORGE KILPATRICK: Well, it's a little more now. []

DOUG EWALD: Two and a half. []

DON FREEMAN: Two and a half billion? []

GEORGE KILPATRICK: Two and a half? I'm sorry, it's a lot more. []

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DON FREEMAN: So if we raised \$650 million or \$700 million, that would be, well, almost a third of property tax relief, supposedly, if it went... []

GEORGE KILPATRICK: If it was \$750. []

DON FREEMAN: Yeah. []

SENATOR RAIKES: But it is an important issue. I mean, say you didn't raise that much money or a smaller amount or a larger amount, what do you do with it? You know, I own ag land right now and theory tells me that if you, tomorrow, say that ag land property taxes are going to drop in half, I think what happens is that that is almost instantly capitalized in the value of farmland. Yeah, raises the price of farmland. So that's a great deal for me. I mean I'm an old guy that owns farmland and all of a sudden I've gotten a windfall. Is that really what you want to do? You want to tax somebody on their food so that you can make my heirs wealthier? I'm not sure you want to do that. []

DON FREEMAN: No, you're right. That's not... []

SENATOR RAIKES: So I think, you know, if you get to the point Matt...you know, if there's some...the distribution has to be, I think in some sense, equitable. It has to be. I mean if you're going to...and you talk about farmers, I mean, you're...even in farmers, some people are concerned about young farmers, that doesn't do a damn thing for young farmers. []

DON FREEMAN: No. []

SENATOR RAIKES: It makes the land they have to buy a higher price. So whatever mechanism you're going to use to raise this money and direct to property taxes, it needs to be equitable, in my opinion. []

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DON FREEMAN: Yeah. Right. []

SENATOR RAIKES: So, you know, to take the bump out of, you know, all...you know, I'm bumping along here, making things work, and then all of a sudden, you know, you're going to raise my real estate taxes \$1,000, okay, well, you know, that's maybe an unfair shock, you know, even if Matt, as I know he is, is a really rich guy. We probably should help him out in that regard. But those, I think, are very important issues to address. []

DON FREEMAN: They are, indeed. []

MATT JEDLICKA: I can't argue that capitalization. Yeah, it's going to happen. And the way people are land hungry, it will happen fast. Maybe what we're going after is that family that keeps the land in the family, in a lot...and doesn't change hands, right or wrong. But I can't...I agree with everything Senator Raikes said. I mean that overnight shock is the hardest part on people, I think. []

ROBERT McMANUS: The...going back to, Senator Pahls, your question about what would you have to get rid of to get this kind of money, you know, what exemptions are you talking about, we actually have that data in the book. But just to go through some of them, you'd really have to, to get that kind of money, you'd be talking about almost every significant deduction right now. Those would include rebates on motor vehicles, \$13 million; room rentals made by hospitals, \$4 million; trade-in value of motor vehicles, motor vehicle fuels, you'd be putting a sales tax on motor vehicle fuels in addition to the motor fuel tax. So it would be very Draconian. But one suggestion that came up at the last meeting, which I never heard of people's reaction to, was the sense that every one of these exemptions has been put in here for a purpose because the Legislature thought it was...that these things needed to be exempt. And the idea was raised last time was that if we want to raise more money perhaps we should relook at these exemptions by sunseting them all and having the Legislature be forced to reexamine

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each one and determine whether it is (inaudible) these exemptions are the right way to go. And that was...that idea was mentioned but then we...I didn't really hear any feedback on it. []

SENATOR PAHLS: Well, this is how I view something like that. I'm not arguing but...nor needing to want to take away those exemptions, but we're going to have an awful lot of new senators in the future and if we have, let's say, I'll pick on Ron now, let's say Ron keeps pushing a particular agenda in the Legislature. The new group of senators need to know the past history and I've been told this data is around, or this data is around, but we have a tendency to just put it off to the side. I want, if Ron wants some new legislation, I want the people to know that we've already buttered his bread ten years ago. []

SENATOR RAIKES: And I don't want them to know that. (Laughter) []

SENATOR PAHLS: And I'm not saying take away his bread, but I'm just saying if he keeps wanting to put more butter on it, I think the new people on that floor ought to know that. That's the only reason why I was pushing that. I'm not...my heart is not to take away any of those exemptions unless that's the route we need to go. But if he keeps coming back and wants another piece of the pot, and I'm naive enough because I just don't understand some of the goings on, and that's going to happen because we're going to lose Raikes in the body, and pretty soon, if we're reelected, you and I are going to be the old guys. Now I'm not talking physically, just talking about...you know, soon you're going to have a new group coming along. And I just want to make sure they're aware of that. Enough about... []

DON FREEMAN: Well, a general comment: You know, I think it's better for us to try to make Nebraska competitive so we can have growth from inside and outside, and I guess I would pose a question to Richard. Is a substantial property tax relief, is that something that would really help Nebraska grow? []

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RICHARD BAIER: I mean all of them are going to help. []

DON FREEMAN: Yeah, I understand. []

RICHARD BAIER: If I had to put it high on the list, it's probably...picking the top ten, it's probably not in the top five. Right now it's labor force. I'm sitting here...I'm going to really turn the discussion. I apologize. I mean if I had \$700 million for three years, I'd ask the Legislature, in a perfect world, create a \$2 billion endowment, skim all the interest, and provide every kid a scholarship to go to college, because that would help Nebraska more in the long run in dealing with population and education and making sure we have a work force than it will dealing with today's tax issues. If I was just out there dreaming with a magic wand, it would be kind of fun to do. Because we're starting to see some of the states that are providing free college education or free community college education, like Georgia, begin to really create a work force that will drive them for the next 20 years. []

DON FREEMAN: You know, I think that's something that should be discussed. Maybe that's an option we should look at, some way over a period of time. []

SENATOR PAHLS: Because that's the concept basically they're trying in the Omaha area for the children of need. []

RICHARD BAIER: Yes. But take it statewide and instead of making it a scholarship, make it a forgivable loan, and if they don't stick around in the state when they're done they pay it back. If they stick around for five years, we forgive them a percentage every year. I mean there's some creative things that we could do and, you know, it sounds a little crazy, but in terms of being able...part of the fundamental challenge that we all have in dealing with taxes is that our population isn't growing fast enough to keep up with what we have for infrastructure, and we need to grow our rural communities.



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Maybe there's a way to do that, that's more long term and more of a foundation issue than a simple tax change up front. Because we're talking about a tax change for Matt or myself for the next two years, and based upon the way I see money spent in some of our local jurisdictions, in two years we won't notice again that we had that property tax change, which gets back to Mike's fundamental concern. []

SENATOR PAHLS: But they're your neighbors that are doing that. (Laugh) []

RICHARD BAIER: Oh, I know, and I vote against them every time, don't worry. (Laugh) []

SENATOR BURLING: Mike. []

MIKE HYBL: Just a question for Senator Raikes. If...I imagine you probably looked at this more than anyone else. On the idea of picking up school construction costs at the state level, I see the need, where I'd need some type of certificate of need process. Is it something you'd look at, school construction costs going forward that the state would pick up, or would there be some way of looking back and trying to take some of that current burden that bonds have for constructions, moving that into the state? I don't know if you've looked at that enough to see what other states have done with that or... []

SENATOR RAIKES: Yes. []

MIKE HYBL: ...you can provide some prospective relief, or is it just all going forward? []

SENATOR RAIKES: Yes. []

MIKE HYBL: Yes? Okay. I suppose it comes down to the certificate of need process in trying to decide what was... []

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SENATOR RAIKES: You know, and I think that there's a varied list of what other states have done and I think some good ideas and some bad. But certainly, I mean if you try to make it amenable to Nebraska's situation, you know, using it as an incentive for school districts to address mergers and need to increase efficiency in the district, districts that are facing, you know, exploding student populations, you know, plain old valuation per student. There's a lot of valuation per student here; there's, I mean...then you got the Schuyler situation, you know, where...whether you go back and you, you know...we actually had a provision, very small one, I admit, in the beloved LB126. There was a provision in there which, in effect, provided some state money for construction of school buildings in, well, Schuyler and, oh, the community I can't say the name of right now that's got the packing plant up... []

GEORGE KILPATRICK: Lexington. []

SENATOR RAIKES: Well, yes, Lexington, and then also up north. []

MIKE HYBL: Oh, Dakota City? []

SENATOR PAHLS: South Dakota or Dakota City? South Sioux City? []

SENATOR RAIKES: No, it's a smaller town. It's got the pork plant up there north... []

RICHARD BAIER: Madison. []

SENATOR RAIKES: Yeah, Madison. Yeah. And, you know, the voters saw fit to... []

GEORGE KILPATRICK: Voters didn't like that. []

SENATOR RAIKES: I don't think that's quite the reason they (inaudible). []

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SENATOR PAHLS: But you're saying that this could have a good decrease of property tax if we would go this route, in your mind, or is this just plain? []

SENATOR RAIKES: Well, you know, you know, I think I've indicated that I'm leery about decreasing property taxes because of the equity implications, but I do think that, you know, look, I, when I bought this piece of land or this building or whatever it was, I expected this amount of property taxes. And if I didn't bother to look at made some dumb decision about what they were, I deserve what I got. But if there's something that comes along that I have no way of anticipating, that's really going to throw me into a tizzy, well, then let's start out focusing on that. And a school bond, passing a school bond issue would be such an event, it seems to me. []

JOHN ANDERSON: But to make it retrospective is very problematic, though. I mean it raises the whole issue of moral hazard that we hear about, you know, in relation to subprime mortgages and all of that in the news now. So you go...you encourage people to engage in the behavior that is in, subsequently they're bailed out. And so if you want to change behavior in terms of school districts making decisions and the state participating then you make it prospective, not retrospective, or you've got real problems otherwise. []

DON FREEMAN: Now getting back to Richard's comments have really sparked my interest in that type of approach for making education based, which is to me long term, which should promote growth in Nebraska, and perhaps we can do some of both, maybe do some educational programs and perhaps school construction. I don't know how much, you know, how much it would take for either one or both of them, but... []

SENATOR BURLING: Doug. []

DOUG EWALD: I guess going to back up to our discussion on the exemption issue, and I guess I'm not saying that we should eliminate the exemptions that are out there. I

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mean, they were put in over time. Conscious decisions were made by the Legislature, depending on whether we want to attract or retain certain industry. But I also don't think there's anything wrong with revisiting that, those exemptions, from time to time and their importance to the state of Nebraska. Do we need the ag equipment? Absolutely. But there may be...and I don't...there's a lot of exemptions out there, obviously, but to at the least go and say we're going to take a conscious look at what's out there, is it stuff we want to attract or not want to attract? Is it fine by itself? You know, what's the value to the state? But at least you're making...you're giving yourself an opportunity to say you're making a conscious decision, I guess, if it still fits within the parameters of the state. []

SENATOR PAHLS: Because I believe if you don't want to take a look at it, that means you're hiding something. []

DOUG EWALD: Right. []

SENATOR PAHLS: If it doesn't smell good, it will...you know, so I...transparency, as we've talked in the past. []

SENATOR BURLING: Well, I guess I want to ask Bob a question. The document, "Nebraska Sales Tax," that we had given to us a week or so ago gives us a lot of good information and some general statements in there, and what we're looking for now is a recommendation to put at the end of the sales tax. I mean we have an income tax recommendation. We're looking for a recommendation to put at the end of the sales tax section. []

ROBERT McMANUS: That's correct, and right now the only thing we've addressed in the sales tax is talk about ethanol. But, yeah, the question is, do we...and that's why (inaudible) the fundamental question is are we going to do a shift from increasing sales tax to reduced tax in some other area? []

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SENATOR BURLING: So the question is do, you know, Don Freeman has kind of recommended option number one on this sheet. I sense some dissatisfaction in the group with that. Are there other...do you want to talk about option two and three? Do you want to go with option one with some adjustments? We have two hours left this morning in our meeting. I know you want to talk about the severance tax a little bit. []

SENATOR PAHLS: I just have a point, because we brought up food earlier. I just want to make (inaudible) if we are going...if you're even thinking about taxing food and not really looking at the exemptions, then I really have a hard problem with that personally. I mean that's why I think some of these things, I mean, I just don't think... []

SENATOR BURLING: Well, I think Doug's suggestion, you know, that we're making recommendations. []

SENATOR PAHLS: Okay. []

SENATOR BURLING: We're not passing statute here. []

SENATOR PAHLS: Right. []

SENATOR BURLING: We're making recommendations. And if we want to recommend that the Legislature take a serious look at exemptions, I think that's a good recommendation. []

SENATOR PAHLS: Yeah. Yeah. I agree with that. []

SENATOR BURLING: Those are the types of things we're trying to arrive at here this morning. Discussion has been excellent. I don't, you know, but where do you want to go here, Bob? []

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ROBERT McMANUS: Well, we could do something along these lines, which is to say in the report that the commission recognizes that it could raise up to \$600 million to \$750 million if they were to make some significant changes, and that the Legislature...and that those funds could be used for things directed...tailored to things such as school construction, and that the Legislature should reexamine every deduction and to see whether there are any that should be eliminated, and at the same time look at all services which are currently not taxable and see whether those should be taxed, and that the...any monies raised from those eliminations would be directed towards property tax relief in the form possibly of the schools construction program. And then also...and then include in that the commission recognizes that the steps taken by previous Legislatures has greatly eliminated the disparity in property tax, (inaudible) reduced the property tax burden over the years, but there is the possibility to raise significant additional revenue. So, in other words, it would be kind of coupling all of these into a recommendation for the Legislature to revisit. []

SENATOR BURLING: Comments on what Bob just kind of reviewed for us? Did you, Matt? []

MATT JEDLICKA: Yeah, I agree with that. I guess my whole thing is to change the state aid to local governments to state aid to schools. I guess that's what I would personally be in favor of. []

SENATOR BURLING: Any other comments? Mike. []

MIKE HYBL: Senator, I think conceptually I'm comfortable with that. If we show, look, on one hand, if you look at these exemptions and there's X amount of dollars potentially you could raise; and then, on the other hand, here are some options laying out there what that money could be used for. I think I'm more comfortable with that than more perhaps specific targeted proposals. []

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SENATOR RAIKES: Along those lines, I mean if you look at sort of a very pragmatic, how are you going to collect the sales tax and how successful are you going to be in getting people to pay it and so on, you know, if, to some extent, you know, you can buy shoes or whatever over the Internet, and I know we're working on that, but I think that that's murky. I'm not sure that we're going to really be able to nail it down. So what would you tax to be sure that you can collect the revenue? Probably consumer services would be... []

GEORGE KILPATRICK: Consumer services, food, pharmaceuticals. []

SENATOR RAIKES: Yeah. Yeah, pharmaceuticals you can probably... []

GEORGE KILPATRICK: Yeah, you could get that (inaudible). Yes, you're right. I'm sorry. []

SENATOR RAIKES: Yeah, and maybe, you know, food it hard to imagine, but I suppose you could order in a lot of food from some out-of-state Internet site, too. I don't know. []

SENATOR PAHLS: Steak, Omaha Steak. []

SENATOR RAIKES: But if somebody is cleaning your house or if they're mowing your yard or, you know, those kinds of things, now I admit that you've got a lot of folks doing those...that kind of work that are not used to having a sales tax number and doing all that kind of stuff. But none the less, it may be that practically we're looking at a transition in our sales tax base to not...I mean, you know, the shoe thing is a real problem. Because you've got somebody there that's got a store on main street and they're paying property tax, and they're having to compete with somebody out of state that not only doesn't pay property tax, they don't pay sales tax either. You know, so it almost looks to me like there needs to be, you know, that kind of a transition. And of course, the Legislature is going exactly the opposite direction. They end up eliminating sales tax on

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construction services. []

SENATOR PAHLS: Well, just a point of clarification: Now there is a sales tax for the person who cleans your house, do they? Because one of my constituents called me up and said... []

GEORGE KILPATRICK: Building cleaning and maintenance is taxable. The level of collection I'm not sure about. []

SENATOR PAHLS: Okay. Well, that may be true, but she said that's a concern. She feels like she's being...I'm just...because when you said cleaning, and she just called me several...a month or so ago, says, why should I have to when, in her words, when the big boys don't have to? []

SENATOR RAIKES: Well, or, you know, maybe a better example is accounting or legal services, but there again you come in, okay, I'm a corporation, I'm making widgets and I have my lawyer hired in to develop my product liability whatever; it's really an input to my business. So if you're taxing that service, you're, in effect, tax on a tax, and you got all those kind of arguments. But on the other hand, if I, as a consumer, am hiring a lawyer to write my will or whatever, well, okay, that's kind of a final consumption thing and right now that's not taxed. []

DOUG EWALD: Well, I know a certain service, if you're going to tax service, you want to tax those that can't skirt the state, and by that I mean accounting. You'll see accounting and law firms in eastern, the big cities and Omaha, they'll set up shop in Council Bluffs now because they'll be able to do that. And, you know, you talk about somebody who comes and mows your lawn versus, you know, I buy a lawn mower. You know, I pay sales tax on my lawn. Well, you're a little more well to do, so you're going to hire somebody to do that (laughter) but there's no sales tax on that particular transaction there. Now that's... []



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SENATOR RAIKES: You're right. I haven't paid him yet, but I did. []

SENATOR PAHLS: (Laugh) Yeah, shortchanged him probably. []

DOUG EWALD: But, you know, that's the fine line with services. There are certain things that can easily be. But at the same time, we have video stores that are drying up because of Netflix and all this other stuff. I mean, there's some...down at Papillion, I went to one last week, Hollywood Video closed. They're selling all their stock because they can't compete because they're doing Netflix, Internet, all that type of stuff basically. So you're right, I mean it's a real disadvantage to the brick and mortar. So with this whole digital environment (inaudible) do something there. []

RICHARD BAIER: Do we charge Video on Demand now? You charge me sales tax every time I buy that \$3.95 movie at my house? []

DOUG EWALD: Well, if it comes through your cable, yes. []

RICHARD BAIER: Would it be taxed as part of my cable bill? []

DOUG EWALD: Yes. []

RICHARD BAIER: Okay. []

DOUG EWALD: Yes. Yes, it would, so... []

SENATOR BURLING: Do you need to move into something else now or where are you?  
[]

GEORGE KILPATRICK: Do you want to vote? []

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SENATOR BURLING: Do you want... []

DOUG EWALD: Maybe you need a broad-based proposal to. []

ROBERT McMANUS: Would the commission be comfortable with me drafting a proposal along the lines of what I just described about looking for...relooking at the deductions to try to identify a significant amount of sales tax revenues that might come and then dedicating that towards school funding, school building funding? And I'd like to then send that (inaudible) that I think at the end of this meeting I'm going to resend a final copy of everything to (inaudible) within two weeks and so that in two weeks you'd have that to look at. []

SENATOR BURLING: See, the process here is that if we don't feel this morning like we have consensus, and you want another meeting, we should hold it within a week. But if we don't have another meeting, he can get a final draft to all of us within two weeks. So we'll have a week to look at it before our November 8 meeting. []

SENATOR PAHLS: I'm not hearing a lot of people say not to do this. []

DOUG EWALD: Right. []

SENATOR PAHLS: I hear...I mean, I've not heard anybody say, no, let's don't do what he has proposed. If they should, they should speak up now. I have no argument with the general...I don't know if anybody else does. I'm not hearing anybody else stand up and say, hey, this is all wet. []

SENATOR BURLING: Now if we don't have another meeting and he gets a final draft to each one of us within a couple weeks, at the November 8 meeting we can do a little tweaking but not anything huge, because the final report has to be ready by November

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15. We could do some minor changes on November 8, but not major changes, so... []

DON FREEMAN: I'd like to see Bob go ahead and make up that proposal and get it to us on a timely basis so we can look at it and maybe have a half an hour at the meeting on November 8 to make a final decision on it. Is it the consensus we want that to go towards school district relief, tax relief? []

GEORGE KILPATRICK: School taxes or school buildings or both? []

DON FREEMAN: Well, I guess one would be if you have the relief on school buildings you'd have relief on school taxes. []

GEORGE KILPATRICK: Well, it's a much smaller number, Don. []

RICHARD BAIER: Now these (inaudible) school buildings. []

DON FREEMAN: Yeah, a smaller number, yeah. []

MATT JEDLICKA: I guess, since we're not writing law, if it just goes to state aid to schools, I'm fine with that. []

RICHARD BAIER: I would be much more comfortable with that as well. []

JOHN ANDERSON: I'm more comfortable with much more generally than aimed specifically at schools' buildings. []

DON FREEMAN: Okay. Would you want to consider something on Richard's dream? []

RICHARD BAIER: I just keep talking about it. It will... []

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DON FREEMAN: No, I think it's a very valid approach, a long-term investment in expansion. []

RICHARD BAIER: Yeah, I think it's just a question of where you find revenue. We think it will take about \$1.5 billion. []

SENATOR PAHLS: How much? []

RICHARD BAIER: About \$1.5 billion to generate enough interest in an endowment to cover a big chunk of the kids. []

GEORGE KILPATRICK: Suppose you did it as a revolving fund, Don? I mean suppose you had to find five years worth of this sort of stuff and then presumably it revolved? []

RICHARD BAIER: Yeah. You're going to get a lot of payback and we'd make some probably big assumptions to get there. []

GEORGE KILPATRICK: But it's still \$1.5 billion? []

RICHARD BAIER: Yeah. []

GEORGE KILPATRICK: Okay. []

RICHARD BAIER: There's a lot more kids graduate every year that would qualify than we originally thought, and that was providing about \$6,000 a year. []

GEORGE KILPATRICK: That's a good thing. []

RICHARD BAIER: Yeah, it was providing about \$6,000 a year per kid. []

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SENATOR PAHLS: But that would be for any secondary? []

RICHARD BAIER: Uh-huh. []

GEORGE KILPATRICK: Any high school graduates. []

SENATOR PAHLS: There would not be... []

RICHARD BAIER: Anybody that went to school here. []

SENATOR PAHLS: For...of course, then you'd have a period of time and all that, because I know some of the schools, if you've been here, some states, 2 years, you get this much; you've been here for 12 years, you get... []

RICHARD BAIER: Right. In this case, we just did up to four, and we made an assumption about how many were four-year and how many were two-year. []

SENATOR PAHLS: Oh, okay. []

RICHARD BAIER: It was just...it was one of those wild dreams that I had my money, my money (inaudible) look at. []

MIKE HYBL: But you'd have to go to school in Nebraska. []

RICHARD BAIER: You'd have to go to school in Nebraska at a public or private institution. We didn't care. []

JOHN ANDERSON: And you'd have to stay? []

RICHARD BAIER: And you'd have to stay afterwards to get the principal forgiven. []

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JOHN ANDERSON: What about those who go off and are very successful and come back and bring their wealth back with them at some point? []

GEORGE KILPATRICK: They don't need (inaudible). []

JOHN ANDERSON: You want to discourage that. []

SENATOR PAHLS: It's just like the elementary and secondary school act of the sixties. If you taught--this is for teachers--if you taught for five years, they reduced it. But you had to, you know, stay in that profession. It's the same concept. []

RICHARD BAIER: Yeah, we modeled it off the RHOP, or Rural Health Occupations. []

SENATOR RAIKES: There is, I think, a general concern, at least that I had, on these kind of proposals that, you know, maybe this is totally idealistic, but if you're a resident of Nebraska, you have children, we have public schools, we are interested in those schools doing everything they can to fully develop the potential of your children. And if your children end up wanting to stay in the state, fine; if they want to go someplace else, fine too. This is a little bit of a change in that; that you are basically inputs to the economy of Nebraska as children and we're willing to take care of you one way if you stay here and work at the factory or wherever you might work; we're going to take care of you a different way if you don't. You know, the high school kid that graduates and is offered a full ride at MIT, no, sorry, if you don't go to UNL or Doane, you're out of luck. []

RICHARD BAIER: But he's already got a full ride. That's the great part. []

SENATOR RAIKES: Well... []

JOHN ANDERSON: Yeah, but looking at alumni relations, what I find amazing is how

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many of those students go off to MIT, invent something that makes them incredibly wealthy, and ten years down the road they say, you know, I'd really like to go back to Nebraska and raise a family and relocate. And there are a number of them who come back. It's amazing how many come back after a period of time. []

SENATOR PAHLS: And then their children will be able to get the Nebraska scholarship (inaudible). (Laughter) []

MATT JEDLICKA: There's my question, Richard. What are the parameters for this? I mean income? []

RICHARD BAIER: We didn't put anything in there. We put every graduate in this. []

MATT JEDLICKA: Your wild dream didn't last that long, huh? Okay. []

RICHARD BAIER: This is just a...actually, it was a bar conversation but it turned into a two-hour look for my money guy to see what it would take. []

SENATOR PAHLS: Sounds like somebody from WaKeeney, Kansas. []

RICHARD BAIER: Yeah, LaCrosse. []

SENATOR PAHLS: Oh, LaCrosse. I'm sorry. LaCrosse. []

RICHARD BAIER: LaCrosse, not WaKeeney. You have to speak slowly to me. []

SENATOR BURLING: Anybody that's really objects to having Bob do what he said he would do and we can look it over in two weeks and...? Okay? Move on. []

ROBERT McMANUS: Okay. Well, let's, at this point, I'm going to just quickly walk

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through sections and there's a couple things we need to vote on. I've added an introductory section that describes the commission, which is followed by section one, "Demographic Information." There's been no changes to that section. Section two is a new section, "The Overall Nebraska Tax System," and I waited until the end to do this section because it's looking at overall taxation as opposed to individual ones, and I really felt like we needed to know where we were going on sales tax and property tax. But the thrust of this section is that Nebraska ranks generally around 15-16 among the states in almost every study that we've looked at in terms of being the 15th highest tax state. The...what's emphasized in this part is the point about the effect of federal tax deduction on our state taxes, that when you take into account that federal tax deduction of state taxes, Nebraska jumps higher because other states either have...higher states, (inaudible) California, they have higher state income taxes which are deductible and their mortgage interest deduction tends to be a lot higher because their (inaudible) are higher. But when looked at on a combined federal, state, and local basis, Nebraska's tax rate increases compared to other states (inaudible) which other states are getting a better benefit from the federal deduction. You know the only way you can cure that really is to, because you're only allowed to do, like, the higher of your sales, your sales tax or your personal income tax, the states who make (inaudible) states like Texas, which just have one, so Texas just has a sales tax. It's very high, but they get...every Texan gets to deduct 100 percent of that tax. And but the majority of states which have the balance of all the taxes are losing some money in the feds. There are no conclusions to the overall tax system because those are covered in the individual taxes. The Nebraska property tax, I have changes coming from Cathy Lang, who's done...who's looked at this and has made the technical corrections, and at this point what I'm going to be doing is adding the conclusion of sales tax and property tax. I'll have it in both places and refer to the other sections, so I'm going to be saying here that we think relief should be provided in state's funding of schools and that relief would be described...the source of that relief would be described in the sales tax section. So property tax has really had no changes since the last time. In sales tax I have added the conclusion that we talked about last time, which is on page 14 which...regarding the



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ethanol consideration. And I'm going to...on page 14 I describe the cost advantage that Nebraska has over its competition in transportation of ethanol to the West Coast, but I'm going to change that to...not talk about Iowa, per se; just talk about the ethanol states in general. And I'm going to not specifically mention (inaudible) cost advantage. But...and I think that a 3-cent ethanol tax, Doug, would you say...my thinking was that would raise about \$30 million. []

DOUG EWALD: Sixty. []

ROBERT McMANUS: Sixty? []

DOUG EWALD: Yeah, at full capacity, assuming two billion gallons a year. []

ROBERT McMANUS: So that's significant money. []

SENATOR PAHLS: And that would be... []

DOUG EWALD: That wasn't percent. That was per 3 cents per gallon. []

RICHARD BAIER: My only concern with that is if the ethanol market changes, which I think there's some indication it may start going farther east and south, and if that's the case then we suddenly become the highest cost producer as opposed to the West Coast. And I understand where Doug came from on the transportation side, because right now most of it is going to Seattle and L.A. and Denver. But if for some reason we wanted...because they just outlawed more MTBE down in the southeast, we actually make our situation worse because it's already more expensive to go to the east from here, per mile, and we've complicated issue. []

DON FREEMAN: That would not be tacked on ethanol consumed in Nebraska. Is that correct? []

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ROBERT McMANUS: It would. It would be all... []

DON FREEMAN: It would be on all... []

ROBERT McMANUS: Yeah, I don't think you can constitutionally... []

DON FREEMAN: Okay. []

ROBERT McMANUS: ...do that. It would be all ethanol. []

GEORGE KILPATRICK: You could lower the gas tax (inaudible). []

DOUG EWALD: You could lower your gas (inaudible) tax. []

DON FREEMAN: Right. Yeah, right. How would that be collected (inaudible) shipments? (Inaudible) report as shipments? []

DOUG EWALD: The ethanol? []

DON FREEMAN: Yeah. []

DOUG EWALD: The severance tax? []

DON FREEMAN: Yeah. []

DOUG EWALD: That would be collected...the ethanol plant today which collects the checkoff would also send in the...based on what they produced to the state. []

ROBERT McMANUS: I could add a...I could add a sentence in that conclusion that says

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that we recommend the Legislature periodically revisit this tax in light of current economic conditions. One other thing that Don...that our...the subcommittee talked about that is...but we haven't actually had a vote on it, was the fact that use taxes not being collected and that it might be advisable to include in our state income tax return a line item for reporting uncollected use tax. []

DON FREEMAN: It may not do anything in generating anything, but it would make the accountants aware of what they're supposed to be doing. []

ROBERT McMANUS: It does. People do sign it under penalties of perjury. []

JOHN ANDERSON: And some states have done this, and do we know what... []

DOUG EWALD: Yes. []

GEORGE KILPATRICK: There's a lot of them. []

JOHN ANDERSON: ...kind of revenue they collect? []

DOUG EWALD: I don't know what they collect in other states. Some states have done it and we don't need a legislative change to make that happen in Nebraska. []

DON FREEMAN: (Inaudible) put that in the... []

DOUG EWALD: I could put that on the form. []

ROBERT McMANUS: Should I put that report in? []

DOUG EWALD: That's fine. []

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GEORGE KILPATRICK: You can. Typically there's been resistance on the fiscal impact side. I mean, when that's been proposed, you get a fiscal note because of the change in the form, what used to be \$10,000, now it's around \$50,000 every time we change the form. In other words, you get more money to do it. To get more money to do it, you have to have a bill. []

ROBERT McMANUS: You mean if (inaudible) change to a form. []

DOUG EWALD: Yeah, we need to talk about that. []

GEORGE KILPATRICK: I mean you've got that issue. []

DOUG EWALD: Right. []

ROBERT McMANUS: Well, then I guess we could recommend that the next time the form is changed for any reason... []

DOUG EWALD: For any other, exactly. I think right now we only have a couple lines left as far as a space standpoint on the forms, so... []

ROBERT McMANUS: I will put a draft of a paragraph in there to vote on next time. The next section, "Corporate Income Tax," is not changed. Doug, the only thing I can't find anywhere, the year in which Nebraska first adopted its income tax. (Inaudible) take that under (inaudible) give a year, but... []

GEORGE KILPATRICK: Commenced 1968. []

DOUG EWALD: That's what I think. Because the '67 Legislature (inaudible). []

GEORGE KILPATRICK: Sixty-seven Legislature. I believe it commenced in '68. []

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DOUG EWALD: Yeah, '68. []

DON FREEMAN: We had a discussion two meetings ago about the possibility of dropping the corporate income tax, didn't we? Wasn't that even...it was even discussed and I think there was a motion made on it or something to consider it. []

ROBERT McMANUS: Yes, that's right, on corporate, and (inaudible). []

GEORGE KILPATRICK: What it says...I just read it a second ago. []

ROBERT McMANUS: It says the commission recommends that the Legislature review the corporate income tax and its role as a vehicle for the delivery of tax incentives for business making new investment and creating new jobs in the state at the time that the Legislature next reviews business incentive programs. []

DON FREEMAN: Okay. []

ROBERT McMANUS: And as part of that review, the Legislature should examine the backstop issue and determine whether there are any ways which individual income tax would be protected if the corporate income tax is modified or repealed. []

RICHARD BAIER: Bob, you and I had a conversation on the corporate income tax side that our bottom level is at \$50,000, zero to \$50,000. []

DOUG EWALD: Yes. []

RICHARD BAIER: It's been that way since 1986. []

DOUG EWALD: Yes, it's been that way for a long time. []

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RICHARD BAIER: I've been in so many meetings when we talk about these issues, I'm not sure how much it was in this meeting or one other one. But we haven't changed that number since '86. []

DOUG EWALD: There's been some...and I've heard some interest in doubling that, basically. []

RICHARD BAIER: Going from zero to \$100, or zero to \$150, more (inaudible) where we would be now. []

DOUG EWALD: Yeah, it's (inaudible). []

GEORGE KILPATRICK: The committee advanced that, incidentally, two years ago. []

RICHARD BAIER: I know they did. []

DOUG EWALD: Yeah. []

RICHARD BAIER: I know they did. []

DOUG EWALD: It's a 5 percent raise or something, it's something. I can't remember what. []

GEORGE KILPATRICK: It's...well, they're all fractional. []

DOUG EWALD: Yeah. []

GEORGE KILPATRICK: It's 5.24 or something like that. []

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DOUG EWALD: Yeah, something like that. []

RICHARD BAIER: That might be something at least to talk about. []

ROBERT McMANUS: Okay. []

JOHN ANDERSON: But we, on the personal side, we make the recommendation that the brackets potentially be indexed, so we could just say the same thing on the corporate side. []

RICHARD BAIER: Yeah. Yeah, we need to get that \$50 up, because that's, on a small C corp, there's...that doesn't cover very many people. []

JOHN ANDERSON: Well, so one question is the current level, and then the other is indexing it so that it automatically rises over time. []

RICHARD BAIER: Yeah, have two different levels. []

ROBERT McMANUS: Finally, on personal income tax, Milo sent us an e-mail that he's still working that out, and worked with me on his thought about the tax expenditures, and I'll have that at the...included in the report that I send out in the next two weeks. And so, at this point, I turn it out to are there any other issues that... []

SENATOR BURLING: What do you need action on? Do you want to start with...just get approval of some of these new...you need a vote or...? []

GEORGE KILPATRICK: (Inaudible) write it? []

ROBERT McMANUS: I think that...I think that we could...I don't know that we need to get a vote on the introduction in these sections... []

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SENATOR BURLING: Okay. []

ROBERT McMANUS: ...if we could...I guess what I'm looking for right now would be any substantive issues of dispute. []

SENATOR BURLING: Okay. []

ROBERT McMANUS: And then be voting on the...each tabbed section next time. []

SENATOR BURLING: Okay. Have we discussed the severance tax enough? Guess so. []

MIKE HYBL: I think I'm comfortable with, I mean, the changes that Bob discussed was going to made. I'm comfortable with that as a recommendation. []

SENATOR BURLING: And the income tax is...pretty much we settled that one. General statements, are you okay with the general statement, overall tax system that we've had for a while? []

ROBERT McMANUS: Doug, I would ask that you have your staff do a technical review of the sections (inaudible). []

DOUG EWALD: Sure. []

SENATOR BURLING: Now these will be...these will all be proofread for accuracy and typos? []

ROBERT McMANUS: (Inaudible) it's still kind of riddled with those things, but we'll find those. What I'm really looking for is substance. []



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SENATOR BURLING: Anybody else (inaudible). What else you want to discuss here? []

SENATOR PAHLS: Carroll, can I just bring up... []

SENATOR BURLING: Yeah. []

SENATOR PAHLS: And I apologize because I'm going back to one of the issues. []

SENATOR BURLING: That's fine. []

SENATOR PAHLS: Well, since we have the chair of the Revenue Committee and I have this bill dealing with state, you know...(Laughter) []

\_\_\_\_\_: (Inaudible) just been demoted. (Laughter) []

SENATOR PAHLS: You know, a two-day sales tax relief, you know, I'm just trying to put in a plug for that bill that will be coming up again. It'll help families who have children in school, but also you can help anybody around here if we gave you an exemption on that two-day...I just thought I'd let you know. []

SENATOR RAIKES: I think that's a great idea, narrow the sales tax base (inaudible). (Laughter) []

SENATOR PAHLS: Just wanted to, you know, just precursor to what's going to happen. Thank you. []

\_\_\_\_\_: I've got two, Senator, if I could. []

SENATOR BURLING: Yes. []

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RICHARD BAIER: I've got two that I wrote down on mine. One of them was, I wanted to make a case kind of like Senator Pahls just did. I still have a belief, and I know it has a constitutional issue, that we ought to look at annual valuation increases year over year, just so that people don't have sticker shock where they're getting 100 percent valuation increase. You know, that's fine if you're going to get there, but do it over an extended period so that we're not in a situation where we're having the city of Lincoln, where 70 or 80 percent of the people protest and they all win the protest and we've wasted a ton of government time and money doing valuation increases and going through the fight. If we kept it a fairly consistent increase over time, I think we'd all be better off. []

SENATOR PAHLS: And can I address that? Because that's been a big issue and I've been told Lancaster does a much better job than Douglas County. I mean, because just, bam, it just really kills people. I've had an opportunity to talk to a number of people about that and they said they're just getting big times. And some of them are. I mean, and they're people my age and older. []

RICHARD BAIER: I'm not saying they shouldn't give 7 percent this year and next year and the year after that, but quite sure could see it being, you know, 80 or 90 percent when the property hasn't changed hands and it hasn't changed usage. []

SENATOR RAIKES: In effect, what happened is I get a 100 percent increase, really the case is I've been underpaying property taxes for... []

RICHARD BAIER: You could make that argument. []

SENATOR PAHLS: I'll have you come talk to some of the people in my area. They just won't buy that. []

SENATOR RAIKES: I'll talk to them for you. I mean, I... []

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SENATOR PAHLS: Well, I know you will. That's the problem. (Laughter) []

GEORGE KILPATRICK: Actually, this is a lot better than it used to be. []

RICHARD BAIER: Yeah. Senator Raikes, my bigger concern is somebody wind up fighting protests and they eventually win, and the hassle that it takes on bureaucracy and states and counties in the middle, more than anything else. I understand your position completely. []

SENATOR RAIKES: You know, I feel like...Rich has offered the great idea on the sales tax holiday. I mean, back to severance, why don't we form a learning community with Wyoming? (Laughter) You know, we could do a quiet build-up with the National Guard and, you know, go out there. We don't need the whole state. We'll let them keep, you know... []

SENATOR PAHLS: Still going to bring the bill. (Laugh) []

DOUG EWALD: You probably would want to be chairman of that board and run that learning community. (Laughter) []

SENATOR BURLING: You eliminated severance tax on coal. []

SENATOR RAIKES: No. We'd just, you know, kind of share a little more equitable distribution of the revenue, that's all. (Laughter) []

SENATOR BURLING: What do you need? []

ROBERT McMANUS: I think I know what to do. []

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MATT JEDLICKA: Bringing up a couple things. If I were to want to include a recommendation in there about exploring building schools with state funds as opposed to local property taxes, is that something any people would consider? I mean, do we see that as an issue, and how would a recommendation like that even read? And from the state senators, I mean, is that something... []

SENATOR BURLING: You mean for this commission's report? []

MATT JEDLICKA: Yeah. Is that something that would fit into this? I mean, is that something that should be in this report? []

SENATOR BURLING: Well, certainly it can be part of the recommendation that the Legislature take a serious look at that. The details probably don't belong in this report but...comments on... []

ROBERT McMANUS: Well, I think...I was thinking about including the statement that only 12 states don't do this. []

MATT JEDLICKA: Okay. And that's worth a lot right there. []

ROBERT McMANUS: Senator Raikes, would you have a listing of those states? []

SENATOR RAIKES: I can get one for you. I don't...I will tell you that this is something, as I mentioned, it's already...it's been the subject of not so much the tax policy where you get rid of an exemption or something in order to fund it, but rather just the idea of state support for construction of school buildings and, you know, certificate of need aspects and all those kind of things. And...so that's going to happen, or has been happening anyway, but it certainly would be helpful, I think, if this commission nudged it along a little bit and this is something that, you know, would make sense from a tax policy. []

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ROBERT McMANUS: I'll get a listing of those states (inaudible). I'll include that as one of the exhibits. []

MATT JEDLICKA: And the other thing I want to bring up is income-bases property taxes. And I think...I just know from ag organizations, I think there's going to be a larger push for this in the coming years. And that is basically basing property taxes off an income-based formula. And most of the states around us use this. Iowa uses a version, Kansas uses a different version. And Bill Lock is actually delving into that a little bit now, studying that a little bit more. I wish...you know, I think I said this to people. I had a lot to learn. I wanted to learn exactly what our structure was. I wish I would have brought or encouraged this commission to bring somebody in to talk about that a little bit more. If there's any discussion towards that, I would like to hear it. Other than that, maybe just to make people aware of it that I think it's a policy that's going to be looked at. And what it does is it provides a statewide greenbelt, okay, so yet you have your greenbelt next to your urban areas. What this would do is it would just take the law very statewide. It might do a little bit more in some of our ranch areas, maybe next to Ted Turner. He's actually not paying that much for ground, from what I understand. But...so I don't know. Any comments on that, if there are any? Other than that, just to make people aware of it. It's something I wish I would have pushed earlier in this process. []

SENATOR BURLING: Well, you'd like to see...you'd like to see this commission make some reference to suggest the Legislature look at income-based valuations of ag land. []

MATT JEDLICKA: Yeah. We could. I feel bad doing that without people in the room having much knowledge of it though. []

JOHN ANDERSON: I don't understand. The value of any asset is the present discounted value of the future income stream generated by the asset. So what are you

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talking about? []

MATT JEDLICKA: Well, why do we have a greenbelt law? I guess it's... []

JOHN ANDERSON: So we have use value assessment in selected areas. []

MATT JEDLICKA: Um-hum. This would... []

JOHN ANDERSON: So you're suggesting use value assessments statewide? []

MATT JEDLICKA: ...put use value across...yeah. This basically would put use value across the entire state. []

JOHN ANDERSON: In addition to the 30 percent reduction we've already got for ag land. How do they interact with one another? What are you suggesting? []

MATT JEDLICKA: Yeah, it would probably...that would be part of the equation in some way. []

JOHN ANDERSON: I'm just trying to sort out the issues. I mean, income-based valuation we currently have. You want to limit the definition of income? []

MATT JEDLICKA: We have market-based valuation now. []

JOHN ANDERSON: Right. And the market recognizes that the expected future income generated by the asset, and capitalizes that in the present value. []

MATT JEDLICKA: If you think that's representative of ability to pay, which I think there's a big argument in agriculture. And for the same reason we have a greenbelt law, that's why this is getting a push. It would replace a greenbelt law in some areas, I believe. []

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SENATOR RAIKES: The greenbelt thing is directed more at a change in use. I'm right on the edge of the city but I still want to farm it. And there's a state interest in not letting a thing grow up the weeds or whatever. So yeah, you can actually commercial farm it so we're going to make the adjustment in the valuation for...and I do think, I mean, George, correct me. I've got the market value, I've got a greenbelt value. Then my taxable value is 70 percent of the... []

GEORGE KILPATRICK: Seventy-five. []

SENATOR RAIKES: Seventy-five of the greenbelt. []

GEORGE KILPATRICK: Of the...yes, that's correct. That's how we do it now. This...I guess what, and I don't mean to speak for Matt, but I think what he's saying is that all ag land or nearly all ag land has some value for uses other than agriculture, regardless of where it's located. Maybe not all, but certainly those who complain would suggest that there are other uses, and those tend to drive markets. []

SENATOR RAIKES: So how does a 1031 fit into that? I mean, that's really that a use other than... []

MATT JEDLICKA: I think as far agriculture is concerned... []

GEORGE KILPATRICK: Well, I don't know if it does fit in, you know. []

SENATOR RAIKES: I mean, it's basically, I'm willing to...I'm willing to pay a lot of money for some land in order to avoid paying income tax. []

GEORGE KILPATRICK: Couldn't you just pay the lower amount per acre for more acres? I mean, the assumption is that it makes prices higher than they would otherwise

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be. And I suppose that's true, but it's true of all assets. I mean, I have the same benefit for homes and everything else. []

JOHN ANDERSON: Only insofar as it reduces transactions across...I think 1031 has an impact. []

GEORGE KILPATRICK: It's, you know, it's an aspect of the market in the same way that the deductibility of property tax is an aspect of the market and everything else is an aspect of the market. []

SENATOR RAIKES: Oh, and the (inaudible) what happens is some fool came in and paid \$10,000 an acre for this land right next to me and there's no way he can make it work paying that kind of money. And now the assessor is going to get a hold of that information and my valuations are going to go up and I'm going to have to pay them more taxes and... []

JOHN ANDERSON: There aren't too (inaudible). []

SENATOR RAIKES: Pardon? []

JOHN ANDERSON: There aren't too many fools like that, right? (Laughter) []

\_\_\_\_\_: (Inaudible) []

GEORGE KILPATRICK: I mean, there's always a lot more talk than substance to this anyway. I mean, if the sales really are out of line, we trim them off anyway. So the ones that are real outliers aren't counted. What John is saying is if...that this is a lot of it, it is the market. And yes, 1031, the deductibility of property taxes, the quality of the local school, all of that stuff plays into the price that's paid for some piece of property. []



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MATT JEDLICKA: Now I'm not even saying that taxes may go down or valuations may go down. But what it is, is it's more income-based. []

GEORGE KILPATRICK: The last time we did the research on it some years ago, it was approximately an 8 percent reduction, but there were large areas of the state, especially ranch country, where there were increases, some of which were pretty large. And so there is that risk. And I guess the other aspect is that was done using current commodity prices, which right now is going to make a lot of increases (inaudible) farm, I mean, maybe not so much ranch land. []

MATT JEDLICKA: And that's ability to pay a little bit, although it's on a three... []

GEORGE KILPATRICK: It's an ability to pay, but... []

MATT JEDLICKA: ...our state...I don't know if all counties are like this. Our county is on like a three-year average, I believe, or...I'm not sure if that's statewide for ag land or what. []

GEORGE KILPATRICK: Well, that was using a five-year average. Of course, again, the disadvantage of that is you've got a couple years of very high crop prices. When they go down, you're not going to want the five-year average anymore. You're going to want current. (Laughter) I mean, that's the problem. As long as the prices are going up, you want to make sure you mitigate those impacts by an average. When they go down, you want them now, because that now is when the income is dropped. []

DOUG EWALD: Well, and if you have a county that's just predominantly ag, it doesn't really matter because...it's not going to matter because they're going to still get so much money and the mill levy will go up and down according to, you know, what the value is. The value won't matter, I'm saying the mill levy will just...there's nobody else to push the burden to. []

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SENATOR RAIKES: The school (inaudible). []

GEORGE KILPATRICK: Unless the school is equalized. []

DOUG EWALD: Right. There you go. []

MATT JEDLICKA: Now I'm not saying it's a perfect situation and (laugh) I don't have a legal team and I don't sit and do a lot of reading during the day. But I just know there's going to be a push for it. I just want to bring it out here. Every other state around us does this. Okay, we're really a minority doing it the way we do. And the problem with the 1031 is the time frame on it. It's a small time frame. And if somebody is getting out of farm ground by Gretna and is looking for other farm ground...you know, farm ground, you don't see a lot of farm ground sales. They're pretty limited. And...so you can cause chaos sometimes and it only takes two of them. But you know, like I said, I didn't bring this up early enough. It's something that we haven't got a grasp on. So, no, I don't want any recommendations. I do like the discussion though. []

SENATOR BURLING: Okay, all right. []

SENATOR PAHLS: You sell some farm of that farm land around Gretna, you can just retire. Is that right? (Laughter) []

SENATOR KOPPLIN: Well, you got to reinvest it. Still can't retire. []

SENATOR RAIKES: You retire, you got to pay the income tax (inaudible). []

SENATOR BURLING: What else? []

RICHARD BAIER: I have just...one of the other things that I had, going back from my

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original, we talked a lot about state spending being the key to what we're doing in terms of this discussion. But this report really doesn't have any recommendations, any thoughts about what we do with the spending discussion. I'm just saying one of the things that this group talked about, came up in about every meeting, but the final report really doesn't say, here's some ideas. []

GEORGE KILPATRICK: We want to increase it to create an endowment, right?  
(Laughter) []

DOUG EWALD: Well, I think if you raise more sales tax to get property tax relief, that will be viewed as more state spending. []

RICHARD BAIER: That's true. I'm just saying it came up in every meeting, so... []

SENATOR BURLING: So what kind of a statement do we want in regard to that? []

SENATOR PAHLS: Don't you think the Governor is going to hold us in check? []

RICHARD BAIER: I think he (inaudible) it. (Laughter) []

SENATOR BURLING: We don't...you know, we're charged with addressing the tax code and we don't want to address the expense side? Is that...or do we want to put something in there? []

GEORGE KILPATRICK: There is stuff in the background on expense incidentally, on expenditures. []

SENATOR RAIKES: Well, and Doug's point is a very good, is...and this was a big issue in this last session. How you do tax relief depends on whether it gets counted as additional spending or as something else, reduced revenues. And so...exactly right. If

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you're going to collect more revenue at the state level and then dispense it as relief at the local government, that's going to get counted as spending. So state spending is going up again. (Inaudible) a terrible thing. []

RICHARD BAIER: I agree. I understand. []

SENATOR PAHLS: But did we not send the property tax relief right to the homeowner, not back to the schools? Am I wrong there? []

SENATOR RAIKES: Because we didn't want it to be seen as additional state spending. This was a way to avoid that, you know, it was maybe less than totally sincere, but maybe not. Yeah, that's the way we did it. And I actually think that's probably a point that at least needs to be mentioned, because it does, at least this session and I suspect in future sessions, to the extent that people want to very quickly and maybe simplistically take a look at state spending and make a judgment as to whether it's going up or down, there is a direct implication for tax policy. []

SENATOR BURLING: Okay. Anybody have anything else? Anything that you really have a problem with that we've talked about putting in the report? I think we can expect a final draft to be in our hands within a couple of weeks then. []

ROBERT McMANUS: What I'm going to do this time is I'll send out a final draft. I won't send out the exhibits again. So just (inaudible). []

SENATOR BURLING: And then if you have questions or comments, you can contact Amanda or Bob. And are we okay with our next meeting then not until November 8? Nobody feels like we need to meet again before then? Review the report when it comes to us and go from there. []

DOUG EWALD: Probably the big thing to make that work is to make sure that if you've

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got issues or comments, suggestions, you get them Bob. []

SENATOR BURLING: Yeah. That's okay then, Bob, yeah. And you think of something, why...yeah. []

MATT JEDLICKA: If I may, one more thing. Richard, this came to my mind. A long time ago, one of our first meetings, you mentioned something about software. Was that a sales tax or something that our state was very... []

RICHARD BAIER: It would be a sales tax exemption, which would add to the problem we've been discussing. []

MATT JEDLICKA: I'm sorry, say that again? []

RICHARD BAIER: It's a sales tax exemption that we would have to look at, because most of the other states around us exempt customized software, for example. []

MATT JEDLICKA: And we are taxing it now? []

DOUG EWALD: Correct. And it's about... []

MATT JEDLICKA: And we're looking the other direction. []

GEORGE KILPATRICK: We also tax training, incidentally, software training. It's a service extension. []

RICHARD BAIER: Yeah, it's a big chunk. But in terms of if we want to continue to look at technology and the impact, I think that's where we need to make a conscious decision as a state about what that tax policy looks like. []

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DOUG EWALD: But that gets the line of...it's really a business input today. So is that something that you ask the Legislature to look at, to exempt that, to pick it up with something else (inaudible) because it's a business input (inaudible). []

JOHN ANDERSON: Depends on the nature of the software and whether it really is an input. If it is an input, then in terms of economic theory, it ought to be exempt. []

DOUG EWALD: You're right, sure. []

JOHN ANDERSON: But if it's an output somehow, final sales (inaudible). []

GEORGE KILPATRICK: If it's (inaudible) it would be exempt. I mean, however, input is a broader term than (inaudible) and I think sometimes we confuse those. []

SENATOR RAIKES: Yeah, you got the light bulb above the widget-stamping machine. Well, that's final consumption (inaudible). []

GEORGE KILPATRICK: But it is an input and it's like the chemicals in the fertilizer. I mean, pesticides for a farmer is an agricultural input, but it's not...you don't want it in the product. I mean, it's not an ingredient. Now we exempt both of them. But if that were a factory, we wouldn't exempt both. []

RICHARD BAIER: (Inaudible) in an ethanol plant. []

GEORGE KILPATRICK: You know, the chemicals...manufacturing chemicals are a big deal now. We had that bill a couple of times. They're inputs but they're not ingredients. We exempt ingredients, we don't exempt inputs. Exactly. []

SENATOR PAHLS: Now just to make...for clarity on my part, how many more meetings are we going to have? []

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SENATOR BURLING: One more. []

SENATOR PAHLS: One more meeting? []

SENATOR BURLING: November 8. []

SENATOR PAHLS: Okay, November. I just wanted to make sure I was not...and a couple things I'd like for maybe from...to let me know, are the recommendations that we are recommending, are they going to be significant and are they going to be, in our estimation, doable? I mean, I'm just curious in (inaudible) say hey, these recommendations really are significant and they can be implemented. I'd just like to know, you know, because sometimes...this is a criticism I've heard of commissions in the past, is that we come up with things and they're just not doable. And I'm just curious at the next meeting if could, you know, sit around, say hey, these things, we feel good about them and we can...not all, totally, but they could be recommended and implemented. []

SENATOR BURLING: Well, in a couple weeks we'll have a final draft before us, give us a few days to look at it before our November 8 meeting, and that's the question right now. []

SENATOR PAHLS: Because remember, that's a criticism of us on the floor at times. (Inaudible) are you people going to sit around. And I...hopefully something really could come out that could even challenge our thinking, such as (inaudible) and stuff. []

ROBERT McMANUS: One other thing that I would include which I think will address that is (inaudible) summary of our findings and conclusions. Because one of the things that I think is the most important (inaudible) is that there has been significant change since the 1988 study. And directionally it's all been positive, I think. And that tends to drive

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(laugh) what you do. []

SENATOR PAHLS: Right. And I appreciate that. But I don't...do you think the public understands that? I mean, that's who (inaudible). []

ROBERT McMANUS: Yeah, hopefully that summary might... []

SENATOR PAHLS: Bring it out. Okay, because I just want...because some of the criticism that this would be, you know, something that would sit on the shelf. And I don't want that to happen. []

SENATOR BURLING: So the discussion this morning, you know, has kind of given Bob and the rest of us an idea of what's going to be in that report. And so this is the time to speak up if you have a real problem with the way the discussion has gone. But until he gives us that final draft, we don't really know exactly what's in there and we'll have one more chance to comment before it's final at our November 8 meeting. Anybody else? Okay, with that, process? Okay, is there any public comment, anybody that wants to say anything to the commission? Seeing none, thank you very much. The next meeting is November 8. What time...1:30 on November 8. So if there's nothing else to come before the meeting right now, I'll adjourn the meeting and thank you very much for your input. []